

Message Text

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ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 IO-10 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 OMB-01 INT-05 GSA-01 NSC-05

SS-15 STR-04 CEA-01 /101 W

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R 242101Z APR 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3052

INFO USMISSION GENEVA

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY PARIS

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EO 11652: NA

TAGS: EALR, EMIN, ECON, CI

SUBJ: CHILEAN POSITION AT PARIS CIPEC MEETING

REF: PARIS 9243

1. EMBOFF CALLED ON JAIME VELASCO, VICE PRESIDENT AND GENERAL COUNSEL OF CHILEAN COPPER CORPORATION (CODELCO), WHO RECENTLY SERVED AS MEMBER GOC DELEGATION TO PARIS CIPEC MEETING. VELASCO CLAIMED THAT CHILE HAD BEEN PUSHING FOR A 15 PERCENT REDUCTION IN PRODUCTION AT THE NOVEMBER MEETING, BUT ONLY A TEN PERCENT REDUCTION WAS ACCEPTABLE AT THAT TIME.

2. VELASCO DOES NOT EXPECT RAPID INCREASE IN COPPER PRICES, AS HE ESTIMATES THERE IS STILL A 500,000 MT OVERHANG, OF WHICH 185,000 IS ON LME VERSUS NORMAL LME STOCK OF 15,000 MT.

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3. VELASCO STATED THAT HE PROPOSED SCHEME AT MEETING WHEREBY

MEMBR COUNTRIES WOULD FULFILL PART OF EXPORT CONTRACTS WITH COPPER PURCHASE ON LME, WITH EXPECTATION THAT THIS WOULD SOON EXHAUST LME STOCK AND ALLOW PRICES TO RISE. VELASCO CLAIMS THAT SUCH A SCHEME COULD BE MANAGED AT COST TO CHILE OF ONLY ABOUT \$5 MILLION BECAUSE ONLY DIFFERENCE BETWEEN PURCHASE AND SALE PRICES WOULD HAVE TO BE FUNDED (SIC). THIS SMALL COST SHOULD BE RAPIDLY RECOUPED THROUGH INCREASE IN COPPER PRICES, HE SAID. VELASCO CLAIMED PROPOSAL WAS NOT ACCEPTED AT CIPEC MEETING BECAUSE -AFRICAN PARTICIPANTS DID NOT UNDERSTAND IT." VELASCO BELIEVES HE COULD SELL IDEA TO AFRICANS BUT CANNOT AFFORD TIME TO TRAVEL NOW.

4. ACCORDING VELASCO CHILE'S BASE FOR CIPEC EXPORT REDUCTION IS 900,000 MT, CONSISTING OF 856,000 MT PRIMARY AND ABOUT 44,000 MT ELABORATED COPPER. EXOTICA SHUTDOWN HAS ELIMINATED 29,000 MT AND SAGASCA 17,000 MT. CUTBACK IN SMALL AND MEDIUM MINE OUTPUT ESTIMATED BY VELASCO BETWEEN 70,000 AND 90,000 MT, INDICATING CHILE ALREADY MEETING CIPEC COMMITMENT FOR 15 PERCENT PRODUCTION REDUCTION.

5. COMMENT: VELASCO SCHEME ASSUMES LME VERY IMPERFECT MARKET SO THAT MODEST INVESTMENT COULD PRODUCE SUBSTANTIAL PRICE SWINGS. TRADE SOURCE MAINTAINS OTHERWISE AND THAT COST OF SCHEME WOULD ENTAIL PURCHASE LME STOCK AT ENORMOUS FOREIGN EXCHANGE COSTS (ABOUT \$250 MILLION). EXISTENCE OF STOCK ELSEWHERE, WHICH WOULD GRAVITATE TO LME IF PRICES RISE, WOULD MAKE TAB MUCH HIGHER. EMBASSY AGREES WITH THIS ANALYSIS.
POPPER

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